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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

DDI #6675-82
16 August 1982

National Intelligence Officers

NSC review completed

MEMORANDUM FOR: Acting Director of Central Intelligence

THROUGH: Chairman, National Intelligence Council

FROM: Maurice C. Ernst
National Intelligence Officer for Economics

SUBJECT: 16 August SIG-IEP Meeting

1. On 16 August Henry Rowen and I attended a SIG-IEP meeting chaired by Secretary Regan. Three issues were covered:

(1) Legal issues raised by US controls on exports of oil and gas equipment and technology to the USSR.

(2) An update on the US-EC steel situation.

(3) A report on Mexico's financial crisis.

As reported from previous SIG-IEP meetings, staff work in preparation for the meeting was almost nonexistent. Secretary Regan had to deal with representatives of individual departments, most of whom expressed narrow departmental views, without any consideration of broader US strategies cutting across departmental interests. This lack of staff work made any serious substantive discussion exceedingly difficult, especially in the case of the legal issues on export controls. No specific support was requested from CIA.

Legal Issues on Oil and Gas Export Controls

2. Treasury's General Counsel reported on the paper submitted jointly by Treasury, State and Commerce on the legal aspects of these export controls. He emphasized that retroactivity of controls--which applies to Alsthom's purchase of GE technology--makes a weak case even in US courts. The case against John Brown would be stronger because the sale to the USSR will include US components which were already controlled. John Brown may sell the compressors as early as this week.

3. A second legal paper will be prepared, perhaps by c.o.b. the 20th, to examine possible US strategies and tactics, possibly leading to a new SIG meeting on the 23rd.

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4. In the meantime, Commerce will bring before the SIG two form letters it plans to send to oil and gas equipment companies. One of these, which goes to US companies, is designed to elicit additional information on technology transfer so as to better respond to questions about the cost of export controls. Several SIG members were concerned that the burden of answering these questions might be excessive. The other letter warns the European companies, such as John Brown and Alsthom, involved in the current export control cases, concerning the new regulations and the legal sanctions to which they may be subjected if they violate these regulations. Concern was expressed that the wording of this letter might be inflammatory.

EC Steel Issues

5. Commerce indicated that a US-EC agreement on steel is still possible. The US companies are showing continued interest and some flexibility, and the EC is talking to its members about including pipes and tubes in the agreement, which was the main US industry sticking point. In the meantime, the administrative process of preparing to impose countervailing duties on EC steel continues, with October 8 the final deadline. The STR representative pointed out that the US government has leverage over the US steel companies as well as the EC and could force an agreement if it wanted to.

Mexico

6. Secretary McNamar reported on actions taken to cope with Mexico's financial crisis which began late last week and continued over the weekend, when a Treasury/Federal Reserve task force headed by McNamar negotiated non-stop with the Mexicans.

7. Mexico's Finance Minister and two other Ministers met with the US task force after the closure of Mexico's foreign exchange market. Mexican representatives also were sent to the Federal Reserve and the IMF. Mexico is virtually out of reserves (with only $200 million remaining) and needs both immediate and longer term financial assistance on a large scale. The following actions were agreed upon with the Mexicans:

(1) The US made an immediate advance of $1 billion to Mexico, in the form of a prepayment for additional imports of Mexican oil for the strategic petroleum reserve at discount prices.

(2) Central bankers and Treasury officials will meet this week under BIS auspices to develop a large scale support program (probably $1 to 1-1/2 billion).

(3) Mexico will meet Thursday and Friday with 50 large private banks to request a temporary moratorium on repayments of capital, but with continued payment of interest obligations, presumably leading to some form of rescheduling agreement.

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(4) Mexico will approach the IMF for financial support and development of a stabilization program.

(5) Independently, Mexico will announce new domestic stabilization measures this week.

8. This agreement is being held very closely in order to avoid unnecessary political embarrassment for the Mexican government and premature market reactions.

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[redacted]

Maurice C. Ernst

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